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FM AMEMBASSY LIMA
TO RUEHC/SECSTATE WASHDC PRIORITY 3535
INFO RUEHBO/AMEMBASSY BOGOTA 4235
RUEHBR/AMEMBASSY BRASILIA 7154
RUEHBU/AMEMBASSY BUENOS AIRES 2726
RUEHCV/AMEMBASSY CARACAS 0054
RUEHLP/AMEMBASSY LA PAZ JAN QUITO 0918
RUEHSG/AMEMBASSY SANTIAGO 1028
RUEHGV/USMISSION GENEVA 0476
RUEHRC/DEPT OF AGRICULTURE WASHINGTON DC
RHEHAAA/NATIONAL SECURITY COUNCIL WASHINGTON DC
RHMFIUU/DEPT OF ENERGY WASHINGTON DC
RUCPDOG/DEPT OF COMMERCE WASHINGTON DC
RUEATRS/DEPT OF TREASURY WASH DC
RUEHC/DEPT OF LABOR WASHINGTON DC
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USTR FOR EEISSENSTAT, BHARMAN AND MCARRILLO
GENEVA FOR USTR
COMMERCE FOR 4331/MAC/WH/MCAMERON

E.O. 12958: N/A

TAGS: [ETRD](#) [ECON](#) [EFIN](#) [EAGR](#) [ENRG](#) [PE](#)

SUBJECT: PERU ELIMINATES TARIFFS ON 2,894 ITEMS

¶1. (U) SUMMARY: On December 27, the Council of Ministers unilaterally eliminated the tariffs on 2,894 product subcategories, most of which are capital goods. President Garcia announced the measure as part of his government's "investment shock" program, saying the tariff reductions would: help 50,000 companies (mainly microindustry) purchase needed machinery, increase production, improve tax collection, generate employment, and immediately help consumers through lower prices. These tariff reductions will benefit U.S. companies, particularly those involved in the agricultural, information technology and energy sectors. The new tariff rates took effect January 1, bringing Peru's average tariff down from 10.1 to 8.3 percent, and will cost the GOP an estimated USD 259 million in tariff revenue. End Summary.

¶2. (U) The full list of product subcategories whose tariffs were reduced from either 4 percent or 12 percent to zero was published in El Peruano (Peru's Federal Register) on December ¶28. The items include machinery, equipment and animals used in the agricultural, medical, textile, construction, and transportation industries, as well as information technology items, gasoline originating outside the Andean Community, some agricultural inputs (such as soy products) and water-borne vessels (including yachts, sailboats and canoes).

¶3. (U) This unilateral tariff reduction was suggested by Minister of Economy and Finance Luis Carranza. Carranza explained that the measure would help fuel private industry and bring private investment to 25 percent of GDP, which is necessary to maintain the GOP's target annual GDP growth rate of 6-7 percent. As for the USD 259 million cost, Carranza said this would be offset by increased production and would have minimal budgetary impact as the 2007 budget foresaw reduced tariff revenue due to the expected entry into force of the U.S.-Peru Trade Promotion Agreement (PTPA) in January ¶2007. (Note: the PTPA has not yet been approved by the U.S. Congress and implementation is months away at best. End Note.)

¶4. (U) Not surprisingly, the principal opposition to these

tariff reductions has come from Peruvian producers of the affected items. As Minister of Production Rafael Rey noted, "the reduction is across the board, with no differentiation for items produced locally, but eliminating protection increases competition, leads to better products and benefits Peruvians."

15. (U) COMMENT: Peru's excellent macroeconomic situation makes this tariff reduction relatively easy to swallow. In addition to five years of greater than five percent annual GDP growth, Peru had a 1.6 percent budget surplus and less than two percent inflation in 2006. This tariff cut and resulting reduction in production costs are also an effort by the GOP to slow the growth of foreign reserves (currently about USD 17 billion) and decrease upward pressure on the Peruvian currency, which is currently at its highest value in eight years. These tariff reductions will benefit U.S. investors in Peru and U.S. companies exporting to Peru, particularly those involved in the agricultural, information technology and energy sectors. End Comment.
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